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Revised budget estimates for the biennium 2002-2003, budget estimates for the biennium 2004-2005 and report on the level of the operational reserve

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Office for Project Services on the revised budget estimates for the biennium 2002-2003, budget estimates for the biennium 2004-2005 and on the level of the operational reserve (DP/2003/38). The Committee also had before it, as background documentation, the report of the UNDP Office of Audit and Performance and Project Service Audit Section to the Executive Director of UNOPS on internal audit services in 2002 (DP/2003/22) and the annual report of the Executive Director on the activities of UNOPS in 2002 (DP/2003/19). During its consideration of these matters, the Committee met with the Deputy Executive Director of UNOPS and his colleagues, who provided additional information.

2. The Advisory Committee notes that the exceptional financial situation confronting UNOPS in the last few years and the instability in its business environment has required frequent adjustments to its budget projections. The Committee has in the past commented on the serious situation facing the management and operations of UNOPS (see DP/2002/34, paragraphs 2 to 6). The Committee was informed that in response to the income shortfalls and operational deficits faced by UNOPS during the biennium 2000-2001, in 2002 UNOPS implemented a major organizational re-dimensioning exercise that led to drastic cost-savings measures and significant revisions of its projected delivery and income. Some of the consequences of this downsizing, resulting in the separation of 89 staff (or 26 per cent of the total), have yet to be fully absorbed institutionally.

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Revised estimates for 2002-2003

3. Revised delivery estimates for 2002-2003 amount to $969.5 million, based on actual delivery of $485.1 million in 2002 and revised delivery projections of $484.4 million for 2003 (see DP/2003/38, paragraph 8 and table 1). The Committee was informed that the estimates are based on a rigorous and prudent delivery projection exercise and on a new income forecasting methodology, which was first introduced last year and refined further this year.

4. Revised total income estimates amount to $88.2 million for 2002-2003, based on recorded income of $43.7 million in 2002 and revised projections of $44.5 million for 2003 (see DP/2003/38, paragraph 9 and table 1). The Committee was informed that with a total recurring administrative expenditure of $43.5 million in 2002, UNOPS was able to adhere to its self-financing principle and even make a small but symbolic contribution of $200 000 to the operational reserve. At the end of 2002 the operational reserve stood at $4.2 million.

5. For 2003, the recurring administrative expenditure is estimated to amount to $44.5 million. In addition, planned expenditure for 2003 includes $300 000 for already approved remaining staff separations costs as well as $700 000 for part of one-time investments in the Enterprise Resource Planning (ERP) system. Both these charges are submitted as direct charges to the operational reserve (see DP/2003/38, paragraph 15 and table 1). The Committee notes that UNOPS joined UNDP and UNFPA in February 2003 in the implementation of the ERP system. UNOPS expects to re-engineer its business processes and take advantage of the functionality of the ERP system, for effective project management, improved information and data sharing, enhanced financial reporting, and its accessibility from anywhere in the world through Internet connection (DP/2003/38, paragraph 7).

6. The Advisory Committee was informed that, as at 30 June 2003, UNOPS has recorded project delivery and income higher than projected in the revised estimates for 2003, while maintaining the level of administrative expenditure in line with the estimated budget. Recorded total project delivery amounts to $316 million (65 per cent of the annual target), with total income and administrative expenditure amounting to $25.0 million (56 per cent of the target) and $21.0 million (46 per cent of the target), respectively.

Projections for 2004-2005

7. Projections of income and estimated expenditures for the biennium 2004-2005 are discussed in paragraphs 30 to 34 of document DP/2003/38. The Advisory Committee was informed that a review of the existing UNOPS portfolio for 2004 and beyond reveals that, at this stage, it does not yet have the required budgets that would support an annual delivery of about $500 million, which would be comparable to what was achieved in 2002 and likely to be realized in 2003. While UNDP remains the main client of UNOPS, the UNDP portfolio has continued to decline, from $1.5 billion in 1997 to $0.9 billion in 2002 (or about 40 per cent over six years). Furthermore, increases in project portfolio from other organizations have not been able to compensate for the significant decline in the UNDP portfolio. The Committee was also informed that other factors significantly affecting the UNOPS

operations emanate from the increasingly shorter duration of the new contracts with clients and from the political and economic problems occurring in some of the countries where UNOPS has major operations, for example, in Iraq. Because of the difficulty of making projections beyond a one-year horizon, in 2002 UNOPS changed its planning and forecasting cycle from a two-year to a one-year cycle.

8. The Advisory Committee further notes that the UNOPS budget for 2004-2005 is also expected to be influenced by the outcome of the ongoing independent review of UNOPS that was commissioned by the Executive Board, with a view to formulating a forward-looking strategy for the organization. The review is expected to be finalized by the end of July 2003 (see DP/2003/38, paragraphs 8 and 33). The Committee was informed that a new Executive Director of UNOPS has been appointed and will assume his duties on 1 August 2003. The Executive Director would be articulating his vision for the future of UNOPS and would take account of any relevant recommendations from the independent review.

9. The Advisory Committee notes that, in the light of the above-mentioned factors, UNOPS has deferred the detailed formulation of the estimates for the biennium 2004-2005 and instead proposes to use, at this time, the same level of project delivery, income and expenditure as that estimated for the current biennium, while committed to ensuring that its administrative costs would be fully covered by income received.

10. The Advisory Committee recommends that the Executive Board approve the revised budget estimates for the biennium 2002-2003, the staffing level as proposed for the biennium 2002-2003 and, taking into account the circumstances mentioned in paragraph 8 above, the projections for 2004-2005.